



# Instructions for Form 587

## Nonresident Income Allocation Worksheet

References in these instructions are to the California Revenue and Taxation Code (R&TC).

### General Information

#### A Purpose

Use Form 587 to collect information to determine if withholding is required on payments to nonresidents. The vendor/payee should complete, sign and return Form 587 to the withholding agent. The withholding agent may then rely on the certification made by the vendor/payee to determine if withholding is required, provided the completed and signed Form 587 is accepted in good faith. The completed Form 587 should be retained by the withholding agent for record keeping purposes and be made available to the Franchise Tax Board (FTB) upon request.

Do not use Form 587 if:

- Payment to a nonresident is for the purchase of goods;
- You sold California real estate. Use Form 590-RE, Withholding Exemption Certificate for Real Estate Sales;
- The vendor/payee is a resident of California or is an irrevocable trust that has at least one California resident trustee. Use Form 590, Withholding Exemption Certificate;
- The vendor/payee is a corporation, partnership or limited liability company (LLC) that has a permanent place of business in California or is qualified to do business in California. Use Form 590; or
- The payment is to an estate and the decedent was a California resident. Use Form 590.

#### B Law

R&TC Section 18662 and the related regulations require withholding of income or franchise tax on certain payments made to nonresidents of this state. The withholding rate is 7% unless the FTB approves a reduced rate or a waiver. See General Information E.

#### C When to File This Form

The withholding agent should request that the vendor/payee complete, sign and return Form 587 when a contract is entered into or before payment is made to the vendor/payee.

Form 587 will remain valid for the duration of the contract (or term of payments), provided there is no material change in the facts presented on Side 1. The vendor/payee, by signing Form 587, agrees to promptly notify the withholding agent of any changes in the facts.

#### D Withholding Requirements

Payments made to nonresident vendors/payees (including individuals, corporations, partnerships, LLCs, estates and trusts) are subject to withholding. However, no withholding is required if total payments of California source income to the vendor/payee during the calendar year are \$1,500 or less.

Qualifying payments include, but are not limited to:

- Payments for services performed in California;
- Rent paid to nonresidents if the payments are made in the course of the withholding agent's business;
- Royalties paid to nonresidents for the right to use natural resources located in California;
- Payments of prizes for contests entered in California;
- Distributions of California source income to nonresident beneficiaries from an estate or trust; and
- Other payments of California source income made to nonresidents.

Qualifying payments do not include payments:

- To a resident of California or to a corporation with a permanent place of business in California;

- To a corporation qualified to do business in California;
- For sale of goods;
- For income from intangible personal property, such as interest and dividends, unless the property has acquired a business situs in California;
- For services performed outside of California;
- To a vendor/payee that is a tax-exempt organization under either California or federal law;
- Representing wages paid to employees. Wage withholding is administered by the California Employment Development Department (EDD). For more information, contact your local EDD office; or
- To reimburse a vendor/payee for expenses relating to services performed in California if the reimbursement is separately accounted for and not subject to federal Form 1099 reporting. Corporate vendors/payees, for purposes of this exception, are treated as individual persons.

#### E Waivers and Reduced Rates

A nonresident vendor/payee may request that income taxes be withheld at a lower rate or waived. A waiver of withholding will generally be granted when a vendor/payee has a current history of filing California returns and/or making estimated payments when due. To apply for a withholding waiver to reduce or eliminate withholding, get Form 588, Nonresident Withholding Waiver Request. If the FTB has granted a waiver or authorized a reduced withholding rate, attach a copy of the FTB's determination letter to this form.

#### F Requirement to File a California Tax Return

A vendor/payee's exemption certification on this form or Form 590 or a determination letter from the FTB waiving withholding does not eliminate the requirement to file a California tax return and pay the tax due. For return filing requirements, see the instructions for Form 540NR, California Nonresident or Part-Year Resident Income Tax Return; Form 541, California Fiduciary Income Tax Return; Form 100, California Corporation Franchise or Income Tax Return; or Form 100S, California S Corporation Franchise or Income Tax Return.

#### G Where to get Publications, Forms and Additional Information

FTB Pub. 1023, Nonresident Withholding — Independent Contractor, Rent and Royalty Guidelines and nonresident withholding forms are available on the FTB website at <http://www.ftb.ca.gov> on the Internet.

Once you access the FTB website, select Tax Forms from the menu, then select the form number you need. For nonresident withholding and other miscellaneous publications select Miscellaneous California Forms, Instructions and Publications.

Nonresident withholding forms may also be obtained via Forms-by-Fax by calling (800) 998-3676. To order publications or forms or to get additional nonresident withholding information, please contact the Nonresident Withholding Section at the address or automated telephone number below:

NONRESIDENT WITHHOLDING SECTION  
FRANCHISE TAX BOARD  
PO BOX 651  
SACRAMENTO CA 95812-0651  
Telephone: (916) 845-4900  
FAX Number: (916) 845-4831

For information, forms and publications not related to nonresident withholding, you may access the FTB

website or call the FTB Taxpayer Services Center telephone service at:

From within the United States . . . (800) 852-5711  
From outside the United States . . . (916) 845-6500  
For hearing impaired with TDD . . . (800) 822-6268

### Specific Instructions

#### Part I – Withholding Agent

The withholding agent must complete Part I before giving Form 587 to the vendor/payee.

#### Part II – Nonresident Vendor/Payee

The vendor/payee must complete all information in Part II including the FEIN or social security number and vendor/payee's entity type. No withholding is required if the vendor/payee is a tax-exempt entity. Check the tax-exempt box if the vendor/payee is:

- An entity that is exempt from tax under either California or federal law such as a church, or pension plan;
- An insurance company; or
- A federal, state or local government agency.

Tax-exempt vendors/payees do not need to complete Part III and Part IV, but must complete Part V.

#### Part III – Payment Type

The nonresident vendor/payee must check the box that identifies the type of payment being received.

No withholding is required when vendors/payees are residents, qualified corporations or have a permanent place of business in California.

#### Part IV – Income Allocation

Use the income allocation worksheet to identify payments that are subject to withholding. Only payments sourced within California are subject to withholding. Services performed in California are sourced in California. In the case of payments for services performed when part of the services are performed outside California, enter the amount paid for performing services within California in column (a). Enter the amount paid for performing services while outside California in column (b). Enter the total amount paid for services in column (c).

If the vendor/payee's trade, business or profession carried on in California is an integral part of a unitary business carried on within and outside California, the amounts included on line 1 through line 5 should be computed by applying the vendor/payee's California apportionment percentage (determined in accordance with the provisions of the Uniform Division of Income for Tax Purposes Act) to the payment amounts. For more information on apportionment, refer to California Schedule R, Apportionment and Allocation of Income.

**Withholding agent.** If the amount on line 6 is greater than \$1,500, the withholding agent must withhold on all payments made to the vendor/payee until the entire amount on line 6 has been withheld upon. If circumstances change during the year (such as the total amount of payments), which would change the amount on line 6, the vendor/payee must submit a new Form 587 to the withholding agent reflecting those changes. The withholding agent should evaluate the need for a new Form 587 when a change in facts occurs.

If a reduced rate was authorized by the FTB, compute the withholding required by applying the authorized rate to the amount on line 6.

#### Part V – Certification of Vendor/Payee

Enter your name, title and daytime telephone number. Sign and date the form and return it to the withholding agent.